California Energy Action Plan

Goal V: Promote Customer And Utility Owned Distributed Generation

STATUS REPORT

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EAP Goals for DG

- Adopt policies to promote DG
- Develop equitable rate treatment for costs associated with Department of Water Resources power purchases.
- Determine costs and benefits of DG.
- Standardize definitions of eligible DG technologies across agencies to better leverage programs and activities that encourage DG.
- Collaborate with the Air Resources Board and other air quality agencies to integrate energy and air quality activities affecting DG.
- Target research and development, track market adoption, identify system impacts and examine issues associated with new technologies.

Joint Agency Coordination and Integration

Working together to build upon the successful distributed generation collaboration established in 1998.

- CEC strategic reports to Legislature (IEPR, others) and program activities (PIER research, interconnection, others)
- CPUC proceedings in distributed generation and utility resource procurement

Action Goals to Optimize Distributed Generation

1. Oversee customer incentives for aggressive energy peak demand reduction.
2. Increase participation in net metering.
3. Incorporate DG into utility long-term resource plans.
4. Adopt rates and tariffs to reflect reduced grid use by DG customers.
5. Develop cost-benefit methodologies.
6. Consolidate DG data collection and availability processes.
7. Develop fair, consistent interconnection rules.
8. Assess viability of new DG technologies.

1. DG Incentives

Self Generation Incentive Program

- Phase 1 – 2001 through 2004
  - 24.2 MW Renewable DG
  - 47.9 MW fossil fueled cogeneration
  - 170 MW in the pipeline
- Phase 2 – 2005 through 2007
  - Develop emissions and efficiency standards required by Assembly Bill 1685.
  - CPUC to consider funding levels and incentive payments through 2007, evaluate program impacts: load reduction, utilization of waste heat, costs and benefits.

2. Increase Participation In Net Metering

- CPUC-approved utility tariffs allow:
  - Net metered customers to pay the DWR surcharge and the public goods charge only for net consumption
  - Customers to net meter biogas digesters, and allow dairies to aggregate onsite load.
- New tariffs will soon be in place to allow fuel cell customers to participate in net metering
- CPUC will consider proposals to accommodate hybrid renewable/non-renewable systems

3. Incorporate DG Into IOU Resource Plans

- CPUC directed IOUs to submit implementation plans to consider DG as an alternative to traditional distribution investments.
  - A CEC PIER partnership with Southern California Edison will develop and evaluate a bid solicitation process.
- IOUs must include a forecast of DG in long-term planning and procurement process.
- CEC PIER-funded research on DG grid effects is incorporated for public comments in CPUC and CEC rulemakings

4. Adopt Rates and Tariffs To Reflect Levels of Grid Use By DG Customers

- CPUC adopted standby rate policies whereby DG customers who do not require ongoing standby service will pay little or no standby charges.
- CPUC extended the PU Code 353.13 standby rate exemption for non-net metered renewable and clean cogeneration facilities under 5 MW until permanent rates are adopted.
- Permanent standby rates will be adopted by the end of the year in utility general rate cases.

5. Develop Cost-Benefit Methodology

- Will allow agencies, utilities, and DG installers to assess economics of DG. Potential uses include:
  - Compare resource options as part of utility resource planning
  - Determine how to select among various DG technologies for incentives and other funding
  - Evaluation of DG project to postpone costly grid upgrades
  - Measure effectiveness of DG incentive programs
- Joint Agency cost-benefit workshop held on May 5, 2004.
- Coordinate with CPUC QF Avoided Cost proceeding.

6. Consolidate DG Data Collection And Availability Processes

- Streamline utility reporting requirements for interconnection, net metering, and incentive data.
- CPUC will consider how to make DG data publicly available without compromising confidentiality.
- Public workshop in October will solicit workable solutions.

7. Develop Fair, Consistent Interconnection Rules

- CEC opened its own investigation to provide policy and technical guidance on interconnection issues, such as:
  - Interconnection costs
  - Meter ownership
  - Dispute resolution process
  - Net metering for hybrid systems
  - Consistent application of rules among utilities
- CEC will utilize expertise of the Statewide Interconnection Working Group, and hold public workshops
- CEC recommendations to CPUC by February 2005

8. Assess Viability Of New DG Technologies

- Joint Agencies looking at how evolving DG technologies (fuel cells, microgrids, storage, stationary and mobile systems) could affect California's energy future.

- CEC-funded work on DG market transformation and related issues will inform CPUC's resource planning and procurement processes
  - CEC is managing a new PIER program which focuses on "pre-packaging" of cogeneration to reduce costs and improve environmental impact.

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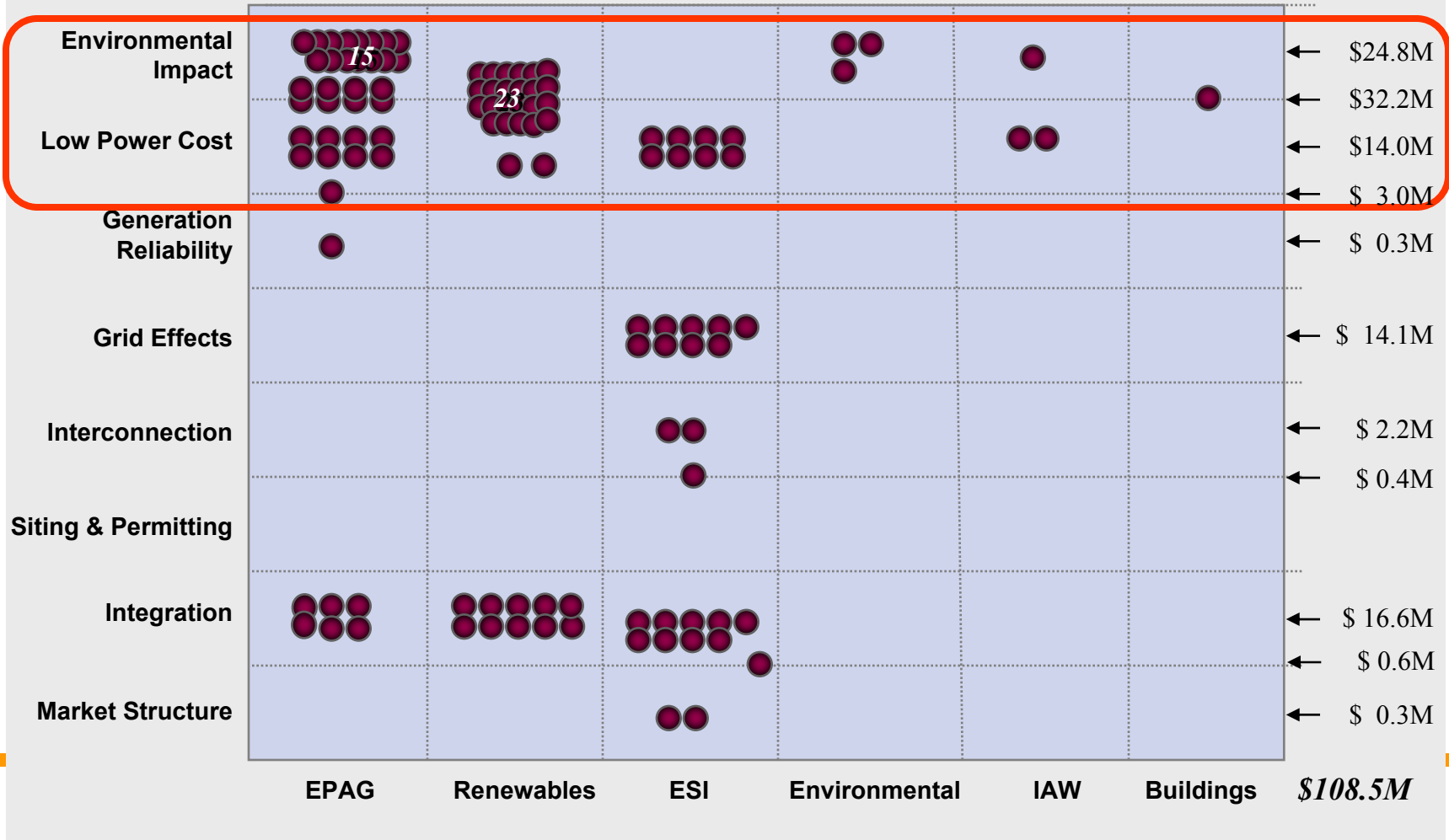
8. Assess Viability Of New DG Technologies cont'd.

111 projects are DER related and total $108.5M out of over $324M in total PIER-funded R&D.



8. Assess Viability Of New DG Technologies cont'd.

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Conclusion

- Joint agency participation has been highly effective in coordinating resources and collaborating on program goals and strategies

- Agencies are moving expediently to meet the Energy Action Plan's goals